

DIRECT TESTIMONY

of

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Safety and Reliability Division
Illinois Commerce Commission

The Peoples Gas Light and Coke Company

Investigation of the cost, scope, schedule and other issues related to the Peoples Gas Light and Coke Company's natural gas system modernization program and the establishment of Program policies and practices pursuant to Sections 8-501 and 10-101 of the Public Utilities Act.

Docket No. 16-0376

October 11, 2016

1 **Q. Please state your name and business address.**

2 A. My name is Eric Lounsberry, and my business address is 527 East Capitol
3 Avenue, Springfield, Illinois 62701.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by the Illinois Commerce Commission (“Commission”) as the
6 Acting Director of the Safety and Reliability Division.

7 **Q. Please state your educational background and work experience.**

8 A. I received a Bachelor of Science degree in Civil Engineering from the University
9 of Illinois and a Master of Business Administration degree from Sangamon State
10 University (now known as University of Illinois at Springfield).

11 **Q. What is the purpose of this proceeding?**

12 A. On July 20, 2016, the Commission entered an Initiating and Interim Order to
13 initiate a proceeding to investigate the cost, scope, schedule and other issues
14 related to the Peoples Gas Light and Coke Company’s (“Peoples Gas” or the
15 “Company”) natural gas System Modernization Program (“SMP” or “Program”)
16 and the establishment of Program policies and practices pursuant to Sections 8-
17 501 and 10-101 of the Public Utilities Act. Further, the Commission’s Order
18 directed Peoples Gas to provide a Preliminary Report that details the Company’s
19 projections and plans for the Program for the remainder of 2016 and to provide
20 monthly updates to that report.

21 **Q. What is your role in this proceeding?**

22 A. I am addressing five topics:

23 1) The Company’s Rolling Three-Year SMP Plan

- 24 2) Target Date versus a Fixed Date for SMP Completion
- 25 3) Neighborhood Risk Ranking System/Uniform Main Ranking Index
- 26 4) Main Location
- 27 5) Public Improvement/System Improvement Program

28 **Q. Have you reviewed the Company's testimony and documentation in this**
29 **proceeding?**

30 A. Yes, I have. I reviewed the Peoples Gas witness Andrew J. Hesselbach's direct
31 testimony, PGL Ex. 1.0, and attachments. I reviewed Peoples Gas' Preliminary
32 Report, filed August 9, 2016, Peoples Gas' July 2016 Month-End Report, filed on
33 August 30, 2016, and Peoples Gas' August 2016 Month-End Report, filed on
34 September 30, 2016. Finally, I reviewed Peoples Gas' responses to Staff data
35 requests issued in this proceeding as well as many of the responses to data
36 requests issued by other parties.

37 **Q: How do you refer to the gas system modernization plan that is the subject**
38 **of this proceeding?**

39 A: During the workshop process, Staff suggested that use of the term Accelerated
40 Main Replacement Program ("AMRP") is no longer appropriate, as AMRP
41 describes a specific plan previously addressed by the Commission in its Order in
42 Docket No. 09-0166/0167 (consol.) The Company offers the term System
43 Modernization Program ("SMP"), and it is clear that the scope of SMP as
44 proposed by the Company includes components that were not included within the
45 scope of AMRP as previously presented in prior Commission proceedings. In his
46 direct testimony, Company witness Andrew J. Hesselbach states that the

Company uses the term SMP “to encompass the AMRP and other system improvement projects.” (PGL Ex. 1.0, 4 n.1) (emphasis added). Staff agrees with “SMP” to describe the ongoing program, but during this proceeding will refer to the Company’s proposal as “Proposed SMP” to indicate that the ongoing plan as revised and supported by Staff does not mirror the Company’s proposal.

Q. By presenting a Proposed SMP Plan for Commission approval, is the Company seeking a predetermination of the prudence and justness and reasonableness of costs incurred pursuant to an approved SMP Plan?

A. No. It is my understanding of the Company’s testimony that the prudence and the justness and reasonableness of any costs incurred by the Company pursuant to an approved SMP Plan will be determined in either in Rider QIP reconciliation proceedings or in general rate cases. (PGL Ex. 1.0, 28-31.)

Q. Are you offering an opinion on the prudence and justness and reasonableness of costs incurred pursuant to an approved SMP Plan?

A. No I am not. My testimony is offered only for the purposes of evaluating the issues in this docket and making recommendations to the Commission regarding Peoples Gas’ main replacement program. I offer no opinion regarding whether the actual costs and expenses of the Company Plan are or should be considered to be prudently incurred, and just and reasonable. As discussed above, the prudence, justness and reasonableness of SMP Plan costs will be determined in either Rider QIP reconciliation proceedings or general rate cases and not in this proceeding.

69 **The Company's Proposed Rolling Three-Year SMP Plan**

70 **Q. How does Peoples Gas propose to plan its expenditures for its Proposed**
71 **SMP?**

72 A. Peoples Gas plans its proposed investments in a three-year time frame with the
73 most at-risk components of Peoples Gas' system targeted for action. Peoples
74 Gas' proposed expenditures will, among other things, relocate meters from inside
75 customer facilities to outside; replace aging cast and ductile iron main with
76 polyethylene pipe; and upgrade the distribution system from a low-pressure to
77 medium-pressure system.

78 **Q. Do you disagree with Peoples Gas' proposal to move to a three-year rolling**
79 **expenditure plan for its Proposed SMP activities instead of its prior**
80 **practice of planning over a longer horizon?**

81 A. No, I do not dispute the need for Peoples Gas to develop a short-term and
82 flexible schedule for planning program activity, which will be updated as the
83 program progresses. I also view Peoples Gas' approach as a reasonable and
84 workable plan pursuant to which the Company will remove, in a timely manner,
85 those system facilities considered vulnerable or at-risk.

86 **Target Date versus a Fixed Date for SMP Completion**

87 **Q. Describe the issue surrounding the use of a target date for completion as**
88 **opposed to a fixed date.**

89 A. The Company's proposal is based on a three-year planning timeframe that is
90 annually updated to focus on the upcoming three years. Progress made during

these rolling short-term intervals will permit the Company to estimate an end-date for the project and adjust that estimate as necessary as the program continues. Attention to the end-date is important to the Company, the Commission and stakeholders as an indicator of the success of the near-term plan, as well as the program's long-term progress and cost. The Company's planning was previously based on a Commission-ordered fixed end-date of 2030. That fixed end-date proved to be infeasible, and inaccurate as a key assumption upon which to base scheduling and planning work in the short term. One of the issues in this proceeding is whether a targeted, rather than fixed, end-date offers a better basis for planning and scheduling. Peoples Gas proposes the use of a target end date that assumes program completion during the period 2035 through 2040.

Q. What is the basis for Peoples Gas' selection of a target date between the years 2035 and 2040?

A. In response to a data request ("DR"), Peoples Gas indicates that:

Peoples Gas' position on the topic of scheduling is described in part in the Staff Report as follows:

Peoples Gas believes that establishing a fixed end date for the AMRP would provide little value and would reduce the flexibility to adjust the program over time as technologies, methods, resource availability and other factors change. However, establishing a target end-date for the AMRP would provide a consistent basis for modeling and monitoring the cost and pace of the project, and Peoples Gas would support this.

An AMRP target end date for modeling and monitoring purposes should reflect the serious nature of the PHMSA "Call to Action," balanced with consideration for prudent resource management and reasonable customer impacts. The Kiefner study identified 2036 as a prudent completion date for replacing the 8-inch and smaller mains that serve approximately 90% of Peoples Gas' customers. Continuing at Peoples Gas' current pace of work would result in project completion around 2040. Therefore, an AMRP target end date within the 2036-2040 range

123 would be realistic and provide a proper focus for modeling and
124 monitoring.

125 (Peoples Gas Response to AG DR 6.03)

126 **Q. Do you agree with Peoples Gas' decision to utilize a target end-date in its**
127 **Proposed SMP?**

128 A. Yes, I do.

129 **Q. Given the manner Peoples Gas selected its target date for its Proposed**
130 **SMP, do you have an opinion about Peoples Gas selection of 2036-2040 as**
131 **the range of years associated with its target date?**

132 A. No. However, I understand how Peoples Gas selected its target year range and
133 appreciate the value this approach provides. I have no alternative or adjustment
134 to make to either topic.

135 **Neighborhood Risk Ranking System/Uniform Main Ranking Index**

136 **Q. How does Peoples Gas determine what locations to add to its three-year**
137 **rolling expenditure plan when it updates the plan?**

138 A. Peoples Gas will rely on its neighborhood risk ranking system to schedule
139 projects and to determine how best to utilize resources to replace the most at-risk
140 pipe in a timely and cost-effective manner. The neighborhood risk ranking
141 system is a process by which the Company can compare the risks associated
142 with the facilities in different neighborhoods, through the use of several key
143 metrics, including the Uniform Main Ranking Index ("UMRI"). Each year, Peoples
144 Gas proposes to schedule projects for its three-year plan by relying on the
145 existing two calendar years and adding a new forecast for the third year.

146 **Q. Has Peoples Gas' neighborhood approach and its use of the UMRI been**
147 **evaluated recently?**

148 A. Yes, Peoples Gas' methodology associated with its neighborhood approach and
149 its use of the UMRI was a specific topic reviewed by Liberty Consulting, Inc.
150 ("Liberty") in its recent management audit of Peoples Gas' AMRP.

151 In particular, Liberty recommended "Peoples Gas should conduct a structured
152 study of alternative criteria and weightings for the Main Ranking Index and for the
153 neighborhood approach[.]" (Liberty Final Report of Phase One Investigation of
154 Peoples Gas Light and Coke Company's AMRP, May 5, 2015, Recommendation
155 F3, F-23)

156 Liberty's recommendations prompted Peoples Gas to make changes to its
157 process, as Liberty discussed in subsequent reports. In particular, Liberty's 3rd
158 quarterly report, dated May 2, 2016, noted that Peoples Gas indicated that the
159 new neighborhood risk ranking system will be run every year with the 2015
160 results used to determine the neighborhoods in which Peoples will undertake
161 replacement activities in 2016. Liberty's report then noted that Peoples Gas
162 would evaluate the criteria and ranking for effectiveness every two years.

163 (Liberty's 3rd Quarterly Phase Two Report, 35)

164 **Q. Do you support the Company's use of the neighborhood risk ranking**
165 **system, UMRI, and the manner the Company plans to evaluate its system?**

166 A. Yes, because Liberty has recently reviewed Peoples Gas' planning approach and
167 Peoples Gas has recently updated its procedure based on Liberty's
168 recommendation.

169 **Main Location**

170 **Q. Does Staff find the Company's approach to locating mains satisfactory?**

171 A. Yes. My understanding is that when Peoples Gas determines the appropriate
172 main location, either a single main to serve customers on both sides of the street
173 or mains on both sides of the street ("double-decking"), it does so on a case-by-
174 case basis that takes into consideration cost, efficiency, future customer
175 maintenance, customer convenience and coordination with the City of Chicago's
176 infrastructure maintenance and repair activities. Further, the prudence
177 determination for Peoples Gas' decision whether or not to use double decking
178 will take place in a rate case or QIP reconciliation proceeding.

179 **Public Improvement/System Improvement Program**

180 **Q. What types of projects does Peoples Gas indicate are under its Public**
181 **Improvement/System Improvement ("PI/SI") Program?**

182 A. Mr. Hesselbach indicated that the PI/SI Program projects are somewhat similar
183 to the projects in the Neighborhood Replacement Program with the main
184 difference being that Peoples Gas does not typically control the scope or
185 schedule of PI/SI projects. Rather, these projects result from third-party requests
186 to relocate or replace facilities due to conflicts or concerns with work needed to
187 address capacity or reliability issues.

188 **Q. Are you aware of any issues with Peoples Gas' PI/SI Program?**

189 A. No. I encourage Peoples Gas to take advantage of opportunities for PI/SI
190 activities. I view the SI/PI Program as a logical activity that should improve the
191 efficiency of Peoples Gas' Proposed SMP.

192 **Q. Does this conclude your direct testimony?**

193 A. Yes, it does.